CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

September 20, 2005

The Capital Projects and Bond Oversight Committee met on Tuesday, September 20, 2005, at 1:00 PM, in Room 129 of the Capitol Annex. Senator Elizabeth Tori, Chair, called the meeting to order, and the secretary called the roll.

Present were:

<u>Members:</u> Senator Elizabeth Tori, Co-Chair, Representative Mike Denham, Co-Chair; Senators Tom Buford and Dan Seum; and Representatives Paul Marcotte and Jim Wayne.

Guests testifying before the Committee: Jim Abbott and Steven Biven, Finance and Administration Cabinet; Tom Denton and Dewey Yeatts, Murray State University; Deborah Wilkins, Western Kentucky University; John Hicks, Governor's Office for Policy and Management; General Julius Berthold, Department of Military Affairs; Hollie Spade, Cabinet for Economic Development; Gleason Wheatley, Environmental and Public Protection Cabinet; Jerry Miller, Commerce Cabinet; Sandy Williams, Kentucky Infrastructure Authority; and Terri Fugate, Office of Financial Management.

<u>LRC Staff:</u> Mary Lynn Collins, Nancy Osborne, Kristi Culpepper, Bart Hardin, and Shawn Bowen.

Senator Seum made a motion to approve the minutes of the August 16, 2005 meeting. The motion was seconded by Representative Marcotte and approved by unanimous voice vote.

Senator Tori recognized and welcomed Representative Jim Bruce to the meeting.

Senator Tori called on Ms. Mary Lynn Collins, Committee Staff Administrator, to review correspondence items. Ms. Collins said members' folders included two items of correspondence from the University of Louisville (U of L): follow-up correspondence relating to student housing bonds issued by Louisville/Jefferson County Metro Government, and correspondence from Larry Owsley, Vice President for Business Affairs, regarding the purchase of scientific research equipment. Also included in members' folders was correspondence from Deborah Clayton, Commissioner for the Department of Commercialization and Innovation, reporting a grant from the High Tech Investment Pool; correspondence from Warren Nash, Cabinet for Economic Development, transmitting a copy of the Annual Report on Economic Development Bond

Pool Program/Monitoring of Jobs Creation/Payback Requirements; and the Kentucky Lottery Corporation's monthly financial report for July 2005. One information item was included for the Committee's review this month: Update on Kentucky's Bonded Indebtedness - Memorandum prepared by Mike Clark, Ph.D., LRC Chief Economist, and Kristi Culpepper, LRC Staff Economist, for the Capital Planning Advisory Board.

Senator Tori said last month, the Committee deferred action on PR-4198, a lease renewal for the Auditor of Public Accounts. She asked Mr. Jim Abbott, Commissioner, Department for Facilities and Support Services, and Mr. Steve Biven, Director, Division of Real Properties, to further discuss this lease.

Mr. Biven said during the renewal of this lease, the lessor requested a rate increase. Advertisements were placed, and four responses were received. One proposal was eliminated due to insufficient space, and out of the two remaining proposals, the existing lessor, Ernest and Barbara Hanna, offered the lowest cost per SF (\$8.50).

Representative Denham made a motion to approve lease PR-4198, Auditor of Public Accounts. The motion was seconded by Representative Wayne and passed by unanimous roll call vote.

Senator Tori then introduced Mr. Tom Denton, Vice President for Finance and Administrative Services, Murray State University (MuSU), and Dr. Dewey Yeatts, Chief Facilities Officer and Associate Vice President for Facilities Management, MuSU, to discuss a project scope increase for the Western Regional Center for Emerging Technology.

Mr. Denton said this project currently has a scope of \$3 million for an Innovation and Commercialization Center (ICC) at MuSU. He said the University is requesting a \$450,000 scope increase, and the source of funds include \$265,000 from the Rural Economic Development Corporation, \$70,000 from the University's General Fund, and \$115,000 from tenants.

These funds (\$335,000) will be used to fit-up space for five offices for the administrators of the program. This fit-up will also include finishing some of the common space such as restrooms and corridors, and the lobby and reception area. The balance of the funds, approximately \$115,000, will be paid by tenants for fit-up of the remainder of the space.

Senator Tori asked why the fit-up costs were not included in the original construction plan. Dr. Yeatts said the building was designed to allow flexibility since at the time of the original construction plan, they did not know who would be utilizing the building. He said as tenants move in, the space will be reconfigured as needed.

Representative Wayne asked if the University has any potential tenants, and if the funds being used to design space are based on those tenants requirements and needs. Dr. Yeatts said at this point they are actually fitting up the minimum space it will take for staff to move in and manage those tenants. He said they have other tenants that would utilize the balance of the requested scope increase. Mr. Denton added that the ICC staff and the Small Business Development Office will move into the building, and several other potential tenants. He said they have one specific tenant who would like to move in immediately.

Representative Wayne asked how much space that potential tenant will need. Mr. Denton said he was not certain.

Representative Wayne said it appeared that the University does not have a solid business plan for this project. Mr. Denton said their regional economic development group has provided funds for this building process in hopes of promoting regional economic development.

Dr. Yeatts said they are requesting the 15% scope increase based on their consultant's estimates of \$335,000 for the immediate fit-up costs, and the balance, \$115,000, would be used to prepare the space for the remaining tenants.

Representative Wayne said this area of the state needs this kind of development, but he had concerns about how tightly this project is being managed. He said, however, he would support the project to encourage the University's efforts. He requested that in the future, MuSU present project reports to the Committee that are more precise than what was presented today. Mr. Denton agreed to follow-up with more precise reports in the future.

Senator Buford asked about the length of term for these leases. Mr. Denton said the leases will be negotiated on an individual basis and will run up to two years.

In response to questions from Senator Buford, Dr. Yeatts said the entire cost of the building, including site development and consultants is \$115 SF.

Senator Buford noted the entire fit-up of four offices is for the administrators of the facility. He asked if these are the individuals responsible for collecting rent and performing maintenance of the facility. Mr. Denton said the offices are for the ICC staff, as well as for other staff involved in economic development.

Mr. Denton said they have received approximately \$200,000-\$300,000 annually from the Kentucky Economic Development Finance Authority to pay the salaries of a director and two staff persons, and the University will also provide support funding.

In response to a question from Senator Tori, Mr. Denton said the University will be responsible for the operating (maintenance) costs of the facility.

Representative Denham made a motion to approve the project scope increase for the Western Regional Center for Emerging Technology. The motion was seconded by Representative Wayne and passed by unanimous roll call vote. The revised project scope is \$3,450,000.

Representative Marcotte explained his "Yes" vote. He noted there are six regional innovation and commercialization centers in the state, and said he would like to see a presentation on the initiative to include program accomplishments and new regional development, and financial investment and return.

Senator Tori next called on Ms. Deborah Wilkins, General Counsel, Western Kentucky University (WKU), to discuss a land acquisition report. Ms. Wilkins said the University has repurchased 4.55 acres for \$1,000,000 from the Southern Kentucky Performing Arts Center (SKyPAC) Board. She explained that in 2001, WKU sold the Board the land adjacent to campus at a cost of \$1,745,400. SKyPAC had planned to build a performing arts center on the site; however, SKyPAC later decided to locate the center downtown rather than adjacent to the campus.

Ms. Wilkins said the SKyPAC Board approached the University about acquiring the property, and it was repurchased for \$1 million. The property was appraised at \$1,240,000 after the University purchased it. The University will use the property for parking and to improve access to and utilization of other WKU properties.

Senator Tori asked why the appraisal was done after the acquisition and not prior to the acquisition. Ms. Wilkins said not having the property appraised beforehand was an oversight on WKU's part.

Representative Denham asked how SKyPAC can justify selling the property for \$745,000 less than they originally paid. Ms. Wilkins said as an incentive to locate downtown, the City will acquire and deed to SKyPAC \$1 million worth of property.

Senator Tori said property acquired under an authorized land acquisition pool is to be reported to the Committee but no further action is required.

Senator Tori asked Mr. John Hicks, Acting Deputy State Budget Director, Governor's Office for Policy and Management, and Mr. Abbott to present the Finance Cabinet's monthly report to the Committee. Mr. Hicks reported a scope increase of \$600,000 for the Eastern Kentucky University Heat Plant Emissions Abatement project. Mr. Hicks said this project was reported to the Committee in June 2005 as an emergency project at a scope of \$1,600,000. He explained that the University was in violation of air

emission standards and had to quickly put together a project in order to come into compliance with emission standards. Mr. Hicks said the funding source for the scope increase is University restricted funds. The project scope increase will be used to accept the low project bid.

Senator Tori said emergency projects must be reported to the Committee within 30 days, but no further action is required.

Mr. Hicks next reported an emergency modification for a renovation project of Building #1 at Bluegrass Station (Department of Military Affairs). Mr. Hicks said this project entailed renovation of the basement area of Building #1 at Bluegrass Station. Due to a loss of federal funding, the scope of the project has been reduced from \$1,300,000 to \$1,000,000. Federal funds anticipated for the project have not been received, and the project will now be totally funded from the Department's Major Maintenance Pool.

Senator Tori said no further action was required by the Committee since this, also, was an emergency project. She then asked about the extent of damage caused by the recent fire at Bluegrass Station. Mr. Hicks introduced General Julius Berthold, BG (Retired), who said the fire damaged bays in a warehouse. A firewall down the middle of the building saved one-half of the building, and the insurance company estimates the building sustained at least \$850,000 in damage. He said the Department of Military Affairs will take care of some of the cost, but the majority of the cost will be underwritten by the insurance.

Mr. Abbott added that they are in the process of stabilizing the firewall to ensure continued operation of the remaining part of the building, and are also moving forward with replacing the lost space.

Mr. Hicks reported an allocation of \$128,000 from the Emergency Repair, Maintenance and Replacement Account to repair the stairwells in the MCV parking garage in Lexington, Kentucky. One of the stairwells has collapsed; the other is in danger of collapse. The parking garage is owned by the Commonwealth and is administratively attached to the Cabinet for Economic Development (Cabinet). MCV Venture, a Webb Company and manager of the garage, will contribute \$50,000 from reserve funds and the most recent monthly payment due to the Cabinet, for a total of \$178,000 available to repair the stairwells.

Mr. Hicks said this state-owned garage is for sale, and for public safety purposes, the stairs need to be repaired. Mr. Hicks said if the garage is sold, the Cabinet for Economic Development will reimburse the Emergency Account for the \$128,000.

In response to a question by Representative Wayne, Mr. Hicks said the company does put aside funds for maintenance and repair of the parking garage. He said in the

operating agreement with the Cabinet for Economic Development, the operator has the responsibility for routine maintenance of the parking garage.

In response to questions from Representative Wayne, Mr. Abbott said MCV Venture is not being held liable for the repair cost because the facility is held by the Commonwealth. Although the company is required in their operational agreement to place a certain amount of their proceeds in a maintenance account, the amount available is not sufficient to underwrite this particular situation.

Representative Wayne questioned whether the stairwells were properly maintained since they have deteriorated to the point of collapse. Mr. Abbott responded that although they do routine walk throughs of the parking garages, this was an unforeseen repair. He said neither the operator nor the Commonwealth had knowledge that the stairwells had deteriorated to this point.

In response to another question from Representative Wayne, Mr. Abbott said the collapse of the stairwell may have been a structural defect, but something they could not see upon visual inspection until it happened.

Senator Buford asked what other parking garages the state owns in Lexington. Ms. Hollie Spade, General Counsel, Cabinet for Economic Development, said the parking garage at the Lexington Financial Center is also state-owned. Another garage, Park Plaza Garage, was sold last April to the Lexington Public Library.

Senator Buford asked Mr. Abbott if he could provide a list of all the properties the state owns in Fayette County. Mr. Abbott said they will provide that information to the Committee at its next meeting.

Senator Tori asked about the repair status of the other three state-owned garages in Owensboro, Frankfort, and Covington. Ms. Spade said that many of these parking garages were constructed in the 1980s, and are now getting to the point where they need maintenance. She said the Cabinet for Economic Development receives regular maintenance reports, and she was not aware of any problems like this with the other garages.

Ms. Spade said when the maintenance needs for these garages exceed what would be considered routine maintenance, the Cabinet for Economic Development generally gets a funding request from the operators.

Representative Denham asked if the Commonwealth plans to sell all of the stateowned parking garages. Ms. Spade said the Cabinet plans to sell all of the parking garages, and the three in Lexington are the first to be put on the market. Representative Denham asked if the Cabinet for Economic Development has any other surplus property that is not needed and should be sold. Ms. Spade said she did not know, but she would find out and relay that information to the Committee.

Senator Tori said Emergency Account allocations are to be reported to the Committee, but no further action is required.

Mr. Hicks next reported that the Department of Environmental Protection has purchased an Inductively Coupled Plasma/Mass Spectrometer at a cost of \$198,000 (restricted funds). He said the existing equipment being used is not adequate, and this new spectrometer will supplant equipment that has become obsolete.

Senator Buford asked why this piece of equipment was needed. Mr. Gleason L. Wheatley, Director, Department for Environmental Protection, Division of Environmental Services, said this new spectrometer operates much more efficiently than the equipment currently being used. The new spectrometer will test for 28 metal elements at a time, whereas the old spectrometer will only test for one metal element at a time. He also noted that the current equipment is approaching the end of its functional life, and parts for repair will soon no longer be available.

Senator Buford asked if the old equipment will have any use after the new equipment is installed. Mr. Gleason said the old equipment will be surplused to one of the universities.

Senator Tori said unbudgeted major items of equipment must be reported to the Committee, but no further action is required.

Mr. Hicks then reported that the Finance and Administration Cabinet plans to approve an allocation of \$1,000,0000 from the Capital Construction and Equipment Purchase Contingency Account to fund a feasibility study for the new Louisville arena.

Mr. Hicks said in April 2005, the Governor appointed the Louisville Arena Task Force to formulate a recommendation to the Governor on the location, financing, size, use, and governance of a new arena in Louisville. The deadline for submitting the recommendation to the Governor is October 1, 2005.

Mr. Hicks said Robbie Rudolph, Secretary of the Finance and Administration Cabinet, has approved the allocation of these funds under the statutory authority granted in 45.760 (15), which permits the Contingency Account to be used to finance feasibility studies for projects that may be contemplated for future funding. He said it is also Secretary Rudolph's intention that the Contingency Account would ultimately be reimbursed for up to \$1,000,000 if the project is funded and receives approval.

Mr. Hicks said Contingency Account funds will be used to finance the ongoing analyses to support the task force's work. After the task force makes it recommendations, the remainder of the funds will be used to continue to refine the cost estimates of a new Louisville arena.

Mr. Hicks said the Commerce Cabinet has contracted with PricewaterhouseCoopers to serve as a chief consultant to the task force. He said there were other contracts as well, including one with LG&E.

Mr. Hicks said on September 16, 2005, the Commerce Cabinet sought approval of the contract with LG&E from the Government Contract Review Committee. At that meeting, action was deferred on the contract until the Government Contract Review Committee's October meeting. He said the Contingency Account allocation is to be the financing source for the contract. LG&E is not being reimbursed for any of its internal costs, but only for the out-of-pocket expenses they incur from a contract they have entered into with Sargent & Lundy, an engineering firm. The remainder of the Contingency Account funds will be used to solidify cost estimates and to refine the scope of work.

Mr. Hicks said because of the size of this project, the earlier they have good information about prospective costs, the better information the decision makers will have concerning the scope of the project. He said the task force needs include: environmental assessments of potential sites; estimated costs of hazard abatements; geotechnical and subsurface testing for the site; structural engineering evaluations; feasibility of utility infrastructure; and an architect and engineering consultant to help oversee and coordinate the work.

Mr. Hicks said while the use the of Contingency Account for feasibility studies is infrequent, it has been used in the past on large construction projects. For example, Contingency Account funds were used for a feasibility study prior to authorization and construction of the Green River Correctional Complex in Muhlenberg County.

Senator Buford noted it would cost \$90 million less to locate the arena near the Fairgrounds than it would to locate it in downtown Louisville. He asked what would be the benefit of building the arena in downtown Louisville. Mr. Hicks said he was not familiar with those details of the project. He said the task force will determine what is the economic viability of one site over the other.

Senator Buford asked where the arena will be located if it is built downtown. Senator Seum, a member of the Louisville Arena Task Force, said that the site is also referred to as the Riverfront site.

Senator Buford asked if the state will need to build additional transportational infrastructure to accommodate the arena. Senator Seum said the task force concluded that transportation was adequate for the three sites being considered - the Fairgrounds, and the two sites in downtown Louisville. He added that the \$1,000,000 is a temporary amount of money that will be repaid to the Contingency Account.

In response to questions from Representative Denham, Mr. Hicks said a portion of the \$1,000,000 allocation from the Contingency Account is in support of the feasibility studies the task force is currently undertaking. The costs associated with the ongoing efforts are to be paid for out of this allocation, as well as prospective expenses related to further refinement of the scope of the arena project.

Senator Seum said there is a \$90-\$100 million difference between building the arena at the Fairgrounds versus building downtown. He said the City of Louisville has volunteered to pay one-third of the cost of the arena, but only if it is sited downtown. He explained that a portion of the City's contribution to the project will come from parking fees and a \$1 event fee to be added to the parking fee, and the City's parking areas are downtown, not at the Fairgrounds. Senator Seum said the business community has also agreed to donate \$100 million to assist with the project, and they also preferred a downtown site.

In response to a question from Representative Denham, Senator Seum said the \$75 million the Governor has agreed to add to the project would be proceeds from a state bond issue.

Representative Denham asked who will manage the new arena. Senator Seum said no matter where the arena is located, the State Fair Board will manage the new arena.

Representative Wayne asked what the Kentucky Sports Authority's annual budget is and if they have contributed financially to the project. Mr. Jerry Miller, Executive Director of Finance and Administration, Commerce Cabinet, said the Kentucky Sports Authority's budget, which was set before the arena task force was developed, was \$500,000. Of that amount, the Sports Authority had planned to spend \$100,000 for promotion of new activities, \$5,000 for professional services, and \$35,000 for grants. These are all the funds the Authority had available after personnel and rent costs were budgeted. However, Mr. Miller said they have instead encumbered the available funds on the arena expenses. He cited contracts with PricewaterhouseCoopers for consulting services, the DLR contract for architectural services, and a contract with Allegeier and Company for appraisals.

Representative Wayne asked if there is any other department within the Commerce Cabinet that could help finance this project. Mr. Miller said they have not

sought funding elsewhere since they believe the feasibility study is a legitimate use of the Contingency Account.

Representative Wayne asked if the PricewaterhouseCoopers contract was a no bid contract. Mr. Miller said the contract was competitively bid. They issued a Request for Proposal, and it was posted on the web for seven days. He said of the three bids they received, one was eliminated, and the two remaining bidders made presentations to the task force.

In response to another question from Representative Wayne, Mr. Miller said none of the contracts were no-bid contracts, except the LG&E contract which is restricted to the company's out-of-pocket costs and not to exceed \$350,000. He said the LG&E contract was a no-bid contract because of a very compressed timeframe in which to complete the work, and the proprietary nature of the information held by LG&E regarding drawings and other information on their equipment. He said there are only three firms in the world that have the ability to turn around a project like this in the timeframe required, and LG&E selected Sargent and Lundy to perform the work.

Representative Wayne asked if contracts over \$10,000 were required to be bid. Mr. Abbott said once the determination was made relative to the proprietary nature of the LG&E contract, the Finance Cabinet executed the contract on behalf of the Commerce Cabinet as a sole-source (no-bid) contract as permitted by statute.

Representative Wayne asked why the Louisville business community and the City of Louisville were not asked to pay for the feasibility study. Mr. Miller responded that these funds are an advance towards future bonding, and the Contingency Account will be reimbursed. Mr. Hicks said the state's willingness to help out represents the administration's interest in and the significance of this project.

Representative Wayne said there is an assumption that the Contingency funds are an advance towards future bonding. He said the Jefferson County delegation is a small group, and the project has to go before the entire General Assembly. He said he did not feel there is interest out in the state to fund an arena in downtown Louisville.

Representative Wayne said he thought this project was on the fast track, and he believed the task force should move slowly when considering a project of this magnitude. He said the state is in a financial crisis at this time, and he was not ready to go forward at this time since the Jefferson County delegation has not caucused on the issue. He indicated he believed the City of Louisville and downtown Louisville business interests should also be asked to participate in funding the feasibility study costs.

Senator Buford said he thought the financing for this project would be set up similar to the Civic Center in Lexington where the state is not financing the facility, and the revenues from the stores, shops, and rentals, will offset much of the debt service.

Senator Buford made a motion to approve the Contingency Account allocation. The motion was seconded by Senator Seum and approved by roll call vote. Five members voted affirmatively; Representative Wayne voted "No". The motion was approved contingent upon reports being transmitted to the Committee as costs relating to this feasibility study are incurred.

Representative Denham explained his "Yes" vote. He said that while he thought this is a very expensive feasibility study, it is needed if the state is going to move forward with this project. He said he agreed with Representative Wayne that if the project is going to be in Louisville, then Louisville should defray some of the cost of the study. However, the feasibility study and the importance of this project is so critical, and with the General Assembly only 120 days away, he felt like it was important to not hold this project up.

Senator Seum thanked the Committee for the vote. He disagreed with Representative Wayne that the project is moving quickly, but there truly is a team situation locally for financing of the arena. He stressed the fact that the proposed arena will not be limited to basketball events, but would be a multipurpose facility. He described the Memphis Tennessee FedEx Forum, which he described as a tremendous multipurpose arena.

Mr. Hicks next reported an amendment to a Maintenance Pool project over \$400,000 reported to the Committee at its August meeting. The Central Lab Dehumidifier project is being reported at a scope of \$480,000. Last month it was reported at a scope of \$180,000, but this month's report also includes an allocation of \$300,000 from the Department's Maintenance Pool.

Senator Tori said no further action is required by the Committee.

Mr. Hicks reported a \$1,926,237 project scope increase for the Department of Military Affairs Runway/Taxiway/Apron Rehabilitation project. The scope increase will be a combination of federal funds (\$1,734,875) and restricted funds from the Transportation Cabinet and the Capital City Airport (\$191,362).

Senator Buford made a motion to approve the scope increase. The motion was seconded by Representative Marcotte and passed by unanimous roll call vote.

Next, Mr. Biven reported three lease reports for the Division of Real Properties. Mr. Biven first reported five state leases with square footage modifications from January through June 2005. No action is required for lease modifications of less than \$50,000.

Mr. Biven then reported a lease renewal for the Personnel Cabinet, PR-3876, located at 200 Fair Oaks Lane, in Frankfort, Kentucky. During the lease renewal process, the lessor requested a rate increase. Mr. Biven said two proposals were received in response to advertisements. The existing lessor had the lower bid and the agency recommended acceptance of the existing lessor's proposal. The lease is being renewed at an annual cost of \$477,708, a 19% increase.

Representative Wayne made a motion to approve the lease renewal for PR-3876, Personnel Cabinet. The motion was seconded by Senator Buford and approved by unanimous roll call vote.

The final item Mr. Biven reported was a lease modification for the Commonwealth Office of Technology, PR-3463, Franklin County. COT plans to repaint a portion of its offices. The cost of the painting is \$14,814, and will be amortized over the remaining lease term (two years). Senator Tori said lease modifications of less than \$50,000 do not require action by the Committee.

Ms. Sandy Williams, Kentucky Infrastructure Authority (KIA), next reported two new KIA Fund B (Infrastructure Revolving Loan fund) loan requests, both for the Fancy Farm Water District in Graves County. The proceeds from both loans, \$586,500 and \$155,000, will be used to retire water and sewer loans with United States Rural Development program.

Senator Buford made a motion to approve the two KIA loans. The motion was seconded by Representative Marcotte and passed by unanimous roll call vote.

Ms. Williams said also included in members' folders was a report from KIA regarding 18 line-item Coal/Tobacco Development Grants approved in the 2004-06 budget. No further action was required on these projects.

The next report was provided by Ms. Terri Fugate, Financial Analyst, Office of Financial Management. Ms. Fugate presented one new bond issue report: Kentucky Housing Corporation Single Family Housing Revenue Bonds, 2005 Series I, J, K, L, M, N, & O or additional series as may be designated in an amount not to exceed \$120 million. She noted that the sale date for the I, J, and K series had been changed from September 27 to October 4 of this year.

Senator Buford made a motion to approve the new bond issue report. The motion was seconded by Representative Marcotte and passed by unanimous roll call vote.

Ms. Fugate presented two follow-up reports for previously approved bond issues: Kentucky Housing Corporation Housing Revenue Bonds, 2005 Series E (AMT) in the

amount of \$80,000,000; and University of Kentucky Consolidated Educational Buildings Revenue Bonds, Series U, dated August 1, 2005, in the amount of 11,495,000. Senator Tori said these follow-up reports are for bond issues previously approved, and no further action was required.

Representative Denham noted the state bonded \$87 million for the Phase II tobacco payments at an interest rate of 4.19% to make payments to tobacco farmers in lieu of the National Tobacco Growers Settlement Trust case. The tobacco farmers have been repaid. He noted that it now appears that the settlement funds will be received by the state after all and asked if the original bond issue needs to be repaid. Mr. Hicks said the appropriations bill enacted in 2005 states that if the settlement funds are received, they are to go directly back to the Rural Development Trust Fund. Rather than repay the bonds, the Administration plans to retain the bonds and use those proceeds for other appropriated bond-funded capital projects. He said the debt service appropriated for the \$87 million bond issue will be credited to the Rural Development Trust Fund.

Representative Marcotte said in the last session a number of water projects were approved, and asked about the schedule for financing these projects. Ms. Fugate said they have issued approximately one-fourth of the project amount, and they anticipate drawing notes for the remainder as needed.

In response to a question from Representative Marcotte, Mr. Hicks said the Office of Financial Management will work with KIA to schedule the bond issues. He said they will enter into an interim financing mechanism that will enable KIA to draw down bond funds for any authorized project that is ready. He said the progress of any project will not be inhibited by not having sold the bonds for the project. In essence, he said they are setting up a line of credit for these projects. He said they are not at risk of having to pay a higher debt service because bonds have not yet been issued.

Ms. Fugate next presented four new school bond issues with School Facilities Construction Commission (SFCC) debt service participation: Clinton County, Harlan Independent (Harlan Co.), Hart County, and Laurel County.

Representative Marcotte made a motion to approve the four school bond issues. The motion was seconded by Representative Denham and passed by unanimous roll call vote.

Ms. Collins said there were two locally–funded school bond issues submitted to the Committee for review this month: Campbellsville Independent (Taylor Co.) and Mercer County. She said all disclosure information has been filed, and no further action on the bond issues was required.

Also included in members' folders was the debt issuance calendar. No action was required for this report.

Representative Denham requested that the Committee receive a report for the next meeting regarding the structural integrity of state-owned dams and levees.

Senator Tori said the Committee's next meeting is scheduled for October 18 at 10:00 a.m. at Maysville Community College.

With there being no further business, Representative Marcotte made a motion to adjourn the meeting. The meeting adjourned at 3:00 p.m.